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Mexico

Retail Food Sector

Convenience Stores

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Report Highlights:
One of the most dynamic areas within Mexico's retail food sector is the convenience store sector, which is growing at an annual rate of 15 percent. Convenience store sales are expected to double over the next few years to US $6 billion, creating export opportunities for U.S. suppliers.

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SECTION I. MARKET SUMMARY

A) MARKET DESCRIPTION

With roughly 8,500 outlets throughout Mexico, convenience stores are the retail subsector with the most dynamic growth. They are developing into a more formal market and are playing a role in shifting consumer trends in Mexico. This report focuses on current trends, characteristics and potential opportunities for U.S. companies within the convenience store industry in Mexico.

Food commercialization and distribution in Mexico is highly fragmented. The distribution process relies heavily on multiple layers of intermediaries. The retail sector in the country is usually divided into:

- Organized - Supermarket chains, warehouse club stores, and convenience stores
- Independent - Mom & pop stores and open/wholesale markets.

Of the aforementioned categories, Mexico's National Retail Association (ANTAD), which represents more than 13,300 stores of the "organized" sector, recently reported that the accumulated sales of its affiliates in 2007 (Jan-Oct), totaled US$ 48.1 billion[1]. Industry analysts commonly attribute about 8% of sales in the organized sector to convenience stores, meaning the convenience store sector has an approximate size of around US$ 3.8 billion. Analysts expect convenience store sales to grow to about US $6 billion over the next ten years.

ANTAD classifies its members into three categories: Supermarkets, Department Stores and Specialized Stores. The latter one, which includes convenience stores, showed the highest annual growth rate of 22%, followed by department stores, with 17%, and supermarkets, with 8.6%[2].

B) MARKET INFORMATION AND TRENDS

For statistical purposes, ANTAD defines convenience stores as those that have a surface space smaller than 5,382 sq. ft. (with the exception of OXXO, which averages 12,915 sq. ft.), that handle a limited variety and supply of food and beverages. Convenience stores focus on saving time and providing accessibility for their customers. They usually operate 24 hours per day, 7 days per week, and are located close to or within residential areas, which is a trend unique to Mexico.

It is important to note that statistical data on Mexico's convenience stores generally is only available on major companies. The existence of a large, unorganized informal sector (led primarily by mom and pop stores and wet markets, of which there are approximately 400,000 point of sale locations across the country) makes it difficult to fully grasp the entire market. Trends reveal that these stores are being displaced by the more formal convenience stores. At the present time, limited volumes and problematic logistical requirements make stores in the informal sector less attractive for U.S. exporters.

In Mexico, current market trends affecting the retail sector in general, and convenience stores in particular, include the following:

- Food demand is driven by growth in secondary and border cities, though absolute growth in major cities will also be substantial.

[1] ANTAD - Press Release. November 2007.
[2] ANTAD – Report to the Board of Directors, 2006.

- Changing meal patterns, including shorter lunches and the increasing role of dinner, have positive implication for convenience stores.
- A shrinking household size also provides impetus for families to utilize prepared foods.
- Increasing pressure on women inside and outside of the home will further fuel opportunities for "ready-to-eat" food and expand utilization of "one-stop shopping" stores.

Convenience stores in Mexico traditionally offer a limited number of products and brand selection is relatively small when compared to supermarkets. Still, opportunities exist for exporters and suppliers of snacks, candies, cookies, energy drinks, alcoholic beverages, beer, prepared meals, and cake mixes, many of which are typically imported. Also, the general acceptance that convenience store price are commonly higher than other sectors (see table 1), gives high value products like frozen foods and wines a potential that should be considered by U.S. suppliers.

Table 1. Price comparison for similar products at different stores
(Prices in pesos, for the Monterrey area, January 2006)

Product	Wal-Mart	7-Eleven	OXXO
Bimbo sliced bread loaf (medium)	$ 10.95	$ 11.00	$ 12.00
Ariel detergent (1 kilo)	$ 17.90	$ 34.00	$ 19.50
Pepsi-Cola soft drink (2.5 liters)	$ 10.32	$ 13.50	$ 13.00
Hass Avocado (1 kilo)	$ 19.50	$ 54.50	$ 30.50

Market studies show that on average, consumers spend from 762 to 1,898 pesos (U.S. dollar equivalent approximately $70.55 and $175.75) per month in convenience stores. Analysts also found out that Saturday, Sunday and Monday are the busiest, representing about half of all store visits. In addition, date shows that 2 out of 3 consumers are males of 18 to 24 years of age[3].

Table 2. Advantages/Challenges for U.S. Exporters Targeting Mexican Convenience Stores

Advantages	Challenges
Large convenience store chains are establishing new concepts and are widening product variety.	The convenience store format entails logistical and distribution challenges for small suppliers.
There is a strong belief among Mexican consumers that U.S. food products are of a high quality.	Imported products are relatively more expensive and take longer to arrive.
Rising per capita income and more women in the workforce are driving demand for imported foods.	Mexican food industry is catching up and is offering products that can compete with imported products.
As of January 1, 2008, imports of all of U.S. food and agricultural product exports to Mexico are duty-free.	Barriers such as labeling and phytosanitary regulations, and Mexican quality standards, may pose obstacles for U.S. products.
Mexico's domestic production of some products (canned goods, cereals and others) cannot meet domestic demand.	Competition from countries which have Free Trade Agreements (FTAs) with Mexico, such as the E.U., Chile, Israel, Japan and other Central & South American countries.
Geographic proximity to Mexico gives U.S. exporters a competitive advantage over other suppliers.	Mexico's transportation and distribution infrastructure is improving, making it easier for other countries to efficiently enter the Mexican market.

Large supermarket chains in Mexico are increasingly taking advantage of customer loyalty to open their own convenience type stores. Soriana, Mexico's second largest supermarket

[3] Source: Mexico Media Targeting 2000. Arbitron Consulting Agency.

chain, recently launched its first convenience store called Super City,[4] and other chains are closely monitoring the market to determine whether to implement a similar expansion strategy. This development could represent an opportunity for U.S. suppliers already working with large supermarket chains to supply the chain's convenience stores.

SECTION II. ROAD MAP FOR MARKET ENTRY

A) ENTRY STRATEGY

Large convenience store chains operate their own distribution centers, which are generally used by large suppliers like Coca-Cola, Sabritas or Bimbo. Small suppliers normally use local distributors in a specific certain region or, in some cases, supply products directly to the stores. Similar to the entry strategy implemented by large supermarket companies, unless the volume is significant, a U.S. supplier will likely depend on a local representative or distributor.

The best way to simultaneously find a distributor and determine product viability is to visit Mexico and meet with prospective representatives, who understand the market and the potential product appeal. Exporters may want to consider joint ventures with distribution companies, particularly those that supply perishable and value-added products. In some case, suppliers can use wholesale markets for distribution into convenience stores. In other cases, specialized distributors can be located for products such as frozen goods and candy.

It is also recommended to participate and attend Mexican trade shows, not only as a way to contact local distributors/sales agents, buyers, and businessmen, but also to gain familiarity with the local competition and market trends. The Agricultural Trade Offices (ATO) in Mexico City and Monterrey coordinate and organize U.S. pavilions at several Mexican trade shows and can assist in contacting distributors and arranging interviews in Mexico.

Once a distributor is established, the U.S. supplier needs to nurture the relationship. Good communication between the supplier, distributor and end-user often is a key element to building a successful distribution network in Mexico. U.S. suppliers should closely monitor their distributors' activities by traveling to the market, going on customer calls and supporting distributor promotional activities.

For the convenience store sector, it is also important to ensure products are tailored to meet Mexican consumer tastes and to determine the price sensitivity of the product in the target market.

B) MARKET STRUCTURE

Convenience stores are challenging both supermarkets and informal "mom and pop" stores. Contrary to experiences in other countries, where convenience stores were initially established next to and around gas stations, convenience stores in Mexico were initially located in middle and high-end income areas. This trend is shifting however, as more and more convenience stores are now located next to or within gas stations, and in close proximity to rest stops along the major highways, including toll-plazas. 7-Eleven, which has the third largest number of outlets, has recently partnered with Pemex, Mexico's state-owned gas company.

As of 2007, the key convenience store sector companies are as follows:

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[4] "Entra Soriana a tiendas de conveniencia". El NORTE, 13-10-2005.

Name (parent company)	Ownership	Location	# of outlets
OXXO (FEMSA)	Local	All major cities	5,097
Extra (Grupo Modelo)	Local	All major cities	2,043
7-Eleven Mexico	Japan / Local	All major cities	550
Del Rio	Local	Ciudad Juarez	170
Circulo K	U.S. / Local	6 states	80
Rapiditos Bip Bip (FEMSA)	Local	Ciudad Juarez	74
Duxy	Local	Toll roads	51
Minimercados AM/PM	Local	Few cities	36
TOTAL (including others)			**8,500**[5]

A characteristic in the development of the convenience store sector is that many stores, particularly in northern Mexico, started as beer and soft drink points-of-sale for Mexican bottlers and distributors, such as in the case of FEMSA (Fomento Economico Mexicano S.A.) which owns and runs OXXO, the country's largest convenience store chain.

OXXO began operations in 1978 as a key distribution channel for FEMSA's beer and soft drinks. In 1982, OXXO launched an aggressive campaign to "convert" traditional mom and pop stores into OXXO franchises, offering training, equipment and support to the owners, along with a recognizable image and logistical services. The success of that campaign continues today as a new OXXO store reportedly opens up every 14 hours, mostly from converted mom and pop stores. Another characteristic OXXO uses to generate consumer loyalty is varying its product line depending on the store's location. For example, stores near universities offer fax and copying services while those in beach locations offer sun-care products. OXXO stores near the U.S.-Mexico border offer prepaid insurance cards to cover Mexican drivers on U.S. roads.

The second largest convenience store chain Extra, which is run by brewery giant Grupo Modelo, undertook a similar strategy in using convenience stores to expand its beer and beverage sales. However, Extra is reportedly closing down some of its stores to "re-define" convenience store strategy[6].

One characteristic of the leading convenience stores is that the parent companies are brewery and beverage holdings, and thus their respective convenience stores normally don't carry rival beers and beverages from rival companies. For example, OXXO does not carry Pepsi beverages or Corona beer, which is produced by Grupo Modelo (Extra). Similarly, Extra does not carry FEMSA products like Sol or Tecate beers. However, both companies carry the same imported beers, beverages and products.

7-Eleven was the first to enter the Mexican market in 1976, after the transnational company joined forces with Monterrey-based Grupo Chapa, a leading grocery distributor in Mexico. In an attempt to remain competitive, 7-Eleven has placed its stores near gas stations. Mexico's state-owned oil company, PEMEX, which controls most of the country's gas stations, only recently allowed private ownership of gas stations. As a result, PEMEX has recently partnered with 7-Eleven stores to provide petroleum products under the brand PETRO-7.

The remainder of Mexico's convenience store market is largely comprised of regional and local brands, or are individually-owned stores experimenting with a franchise strategy.

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[5] Source: Companies' websites & ANTAD database
[6] "Cerrará Modelo 650 Super Extra", News Article printed in TABASCO HOY Online.

Independent and mom-and-pop convenience stores are struggling to survive as sales have slumped in recent years. This is fueling the trend for such stores to join the large formal chains. In some cases, the informal stores are creating alliances with the large food companies such as Rapiditos and Bip-Bip (now part of OXXO). However, according to Mexico's Small Business Chamber of Commerce (CANACOPE), for every convenience store that opens, five mom and pop stores close.

Other food industry companies are also participating the in the convenience store market. Although these companies would generally fall into other retail categories, their characteristics often match the convenience store profile. Some examples follow:

1. Some traditional butcher shops, especially in northern Mexico, have evolved into "BBQ-stores" selling, in addition to meat, everything a consumer might need for a "carne asada" (BBQ cook-out). Although beef, pork and poultry, are the basic products in these shops, tortillas, sauces/dressings, refreshments/beer, charcoal, dairy products, snacks and liquor, are also sold in a small, convenience store type setting. Some of these stores will also prepare complete BBQ meals for consumers, including the meat and all of the trimmings and beverages. These BBQ stores are typically owned by regional meat distributors and have limited operating hours compared to traditional convenience stores. They are also often located next to convenience stores. The main companies in the sector include:

Name	Location	# of outlets
Carne Mart	Baja California, Coahuila, Chihuahua, Durango, Sinaloa, and Zacatecas.	45+
BIF	Coahuila, Chihuahua, Durango and Nuevo Leon	16
San Barr	Monterrey metropolitan area	14
TOTAL (including others)		**250**

2. Pharmacies in Mexico carry a variety of refreshments and snacks, using health and beauty products as "anchor" products to attract consumer. Many Pharmacies are often open 24 hours per day, 7 days per week. However, the variety of food and snack products is limited compared to traditional convenience stores. As in the case with BBQ stores, it is common to find pharmacies located near convenience stores.

SECTION III. COMPETITION

Like supermarkets and other retail formats, convenience stores source many of their consumer products from local producers. Mexico has a relatively strong food processing industry. Leading Mexican brands have well-developed national distribution networks, are well-positioned in the market, and enjoy high brand awareness among consumers. Mexico's main food processors include: Bimbo (bread), which is considered to have one of the country's best distribution systems; Nestle (food products); Herdez (food products); Sabritas (snack foods); Lala (dairy products); Jugos del Valle (canned fruit juices); and Del Monte (canned foods).

There are also several American and multinational producers/importers in Mexico, including Campbell's, Bacardi, General Mills, Gerber, Kellogg's, Kraft Foods, Procter & Gamble, Frito Lay-PepsiCo, Pilgrim's Pride, Purina, and Tyson.

Competition among importers depends on the category. Following is a summary of the main foreign competitors in their respective categories:

- Baked Goods. Top suppliers of imports: United States (56 percent), Ireland (9 percent), Netherlands (6 percent).
- Snack Foods. The United States is the primary supplier.
- Beverages. Top suppliers of imports: United States (46 percent), Spain (15 percent), France (8 percent).
- Fruits, vegetables and grains. Top suppliers of imports: United States (56 percent), Spain (27 percent).
- Confectionary products. Top suppliers of sugar imports: United States (77 percent), Ecuador (4 percent), Spain (3 percent).
- Pet Food. Top suppliers of imports: United States (95 percent), Canada (5 percent).

SECTION IV. BEST PRODUCT PROSPECTS

A) Products present in the market which have good sales potential include the following:

Bread, pastries, biscuits, etc.	Snacks, corn chips, potato chips
Candies & cookies	Frozen dinners & desserts
Energy beverages	Fruits, nuts and edible plant preparations
Chocolate and similar preparations	Canned soups, broths and similar preparations
Baked goods	Baked goods
Frozen pastries and breakfast products	Sauces and preparations

B) Products not present in significant quantities, with good sales potential include:

Wine	Gourmet frozen dinners
Dairy products, cheese and ice cream	Organic foods
Frozen vegetables in "individual" packages	Fresh produce
Salad dressings	

SECTION V. POST CONTACTS AND FURTHER INFORMATION [7]

Agricultural Trade Offices of the USDA's Foreign Agricultural Service in Mexico offer a wide range of marketing programs and services to help U.S. suppliers understand the Mexican market and promote their products to potential clients. Likewise, we offer services and activities to assist buyers in Mexico when locating and sourcing U.S. food and agricultural products.

If you have any questions or comments regarding this report or need assistance exporting food products to Mexico, don't hesitate to contact us at the following addresses:

[7] This report is for informational purposes only to assist exporters of U.S. food and agricultural products in their sales and promotional efforts in Mexico. The data in this report was collected from local trade and government sources and is not necessarily official U.S. Department of Agriculture (USDA) data. While every effort has been made to provide an accurate list of contacts, be aware that telephone and fax numbers change frequently in Mexico. Also, there may be other qualified companies in Mexico and the United States, and their exclusion from any list or directory is unintentional. Neither the USDA nor the Agricultural Trade Offices endorse any firm contained herein. U.S. exporters should take normal commercial precautions when dealing with any potential business contact, including checking references.

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